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# North-South Dialogue

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*Following are statements by Richard N. Cooper, Under Secretary of State for Economic Affairs; Thomas Ehrlich, Director of the International Development Cooperation Agency (IDCA); Joan Spero, U.S. Ambassador to the U.N. Economic and Social Council (ECOSOC); and C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs, before the Subcommittees on International Economic Policy and Trade and on International Organizations of the House Foreign Affairs Committee on May 15, 1980.*

## MR. COOPER

I appreciate the opportunity to talk with you about the North-South dialogue, its importance to the United States, and the directions we see it taking in the months ahead. This subject is particularly timely, as late this summer we will attend the 11th Special Session of the U.N. General Assembly, which will bring together two major themes for the first time—the launching of a round of global negotiations on major international economic issues, including energy, and the formulation of an international development strategy for the 1980s.

The North-South dialogue can be looked at on two levels. Most generally, it can be defined as the whole range of discussions and negotiations between industrial and developing countries—bilateral, regional, and international. More specifically, however, the dialogue can be defined as a discussion in multilateral fora of the international economic system which has evolved since 1945.

The developing countries use this dialogue to press for fundamental restructuring of the system in ways they believe would benefit them. Industrial countries attempt to strike a balance between promoting mutually beneficial change and preserving the fundamentals of a system which they believe has generally served well not only their interests but those of all countries.

It is this latter concept of a dialogue we are discussing today. Yet, at the outset, I should note the interrelationship between the two concepts. Clearly, our bilateral relationships with developing countries and our actions in such specialized economic organizations as the General Agreement on Tariffs and Trade (GATT), the development banks, and the International Monetary Fund (IMF), all have a strong impact on international political-level discussions. And conversely, the tone set in the international dialogue provides a backdrop on which more concrete bilateral and multilateral relations occur.

The North-South dialogue grew out of the experience of the developing countries in the 1950s and 1960s, when they discovered that in the U.N. General Assembly they could command world attention. Unlike the Bretton Woods institutions, in which voting is weighted heavily in favor of industrial countries and meetings are closed to the public, in the U.N. institutions each country has an equal vote. Developing countries are able to make their demands heard and constitute majority votes in those fora, particularly when they act in unison. They first used this power to demand an

end to colonialism, but by the 1960s, as the curtain rang down on the colonial empires, developing countries increasingly turned their attention to the international economic system in the U.N. fora.

The decade of the 1970s marked an intense period of North-South dialogue. Debate turned highly confrontational in the U.N. Sixth Special Session in the spring of 1974, in which the developing countries demanded a new international economic order. A more constructive tone was set in 1975 with the Seventh Special Session of the United Nations and the launching of the Conference on International Economic Cooperation in Paris, and in the spring of 1976 with UNCTAD [U.N. Conference on Trade and Development] IV in Nairobi. In 1979 the combination of a deteriorating world economic climate and dissension among the developing countries over their priorities and over the question of energy, led the developing countries to call for an inclusive, high-level round of global negotiations, to be launched by the 11th Special Session.

As we prepare for this major undertaking, it is appropriate that we review the importance to the United States of the North-South dialogue, the issues debated, and the factors which encourage or impede progress in the dialogue.

### Importance to U.S.

For the United States, the developing countries are increasingly important both economically and politically. They are major suppliers of raw materials, including, of course, oil, and our most rapidly growing export markets. For example, from 1970 to 1978 U.S. exports of capital goods to developing countries quadrupled from under \$5 billion to over \$22 billion. In fact, taken as a group, developing countries now account for more U.S. exports than the European Common Market and Japan combined. During the recessionary period of 1974-76, while exports to industrial countries stagnated or declined, exports to developing (including oil-exporting) countries continued to expand. Without that demand for U.S. goods, our unemployment and production would have been even worse. About 24% of our \$170 billion in overseas direct investments are in developing countries, as well as around 31% of the \$190 billion in U.S. bank claims on foreigners. Profits and interest from these investments and loans play an important role in helping to offset the merchandise of trade deficits we have run in recent years.

The cooperation of the developing countries is becoming increasingly essential if we are to use the world's resources efficiently. We need to work with them if we are to continue effective use of the world's electromagnetic spectrum and to mine the floor of the sea and harvest its fish. Policies in developing countries which result in deforestation or desertification affect not only their own futures but the future availability of food and timber and even the nature of weather patterns for the world community. Their attitudes

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toward pollution as they spur economic growth affect not only their own rivers and air but the world's oceans and atmosphere.

It is also in our strong security interest to see that most of these countries find that we and our allies are receptive to their desires for improved economic growth. It is true that so long as we maintain a strong national defense, the direct threat of developing countries to the physical security of the United States is negligible. But the internal upheavals and regional disputes can endanger individual Americans and risk confrontation between the superpowers. Moreover, events of the past few years have demonstrated anew that even overwhelming force of arms cannot assure the United States of sure friends or the achievement of security objectives in the Third World. If the developing countries believe we are uninterested in their economic and political welfare, no amount of arms will win their respect and their cooperation on matters of importance to our security and well-being.

Perhaps even more important than these current considerations is the fact that the kind of world our children inherit will be heavily determined by the choices developing countries make as to their social and economic systems. The developing countries, after all, account for about three-quarters of the world population, and their share is increasing. The degree to which they identify or oppose the Western system of economic, social, and moral values will have an influence, perhaps even a determining influence, on whether our descendants live in a world which is hospitable to their values and welfare or whether they live under a psychological state of siege.

### Developing Country Concerns

Thus, it is not only out of humanitarian concern but also for hardheaded economic and security reasons that the United States should listen carefully to the concerns enunciated by the developing countries in the North-South dialogue. These demands tend to revolve around three themes—obtaining needed foreign exchange, assuring availability of technology for development, and increasing the decisionmaking power of developing countries in the economic system.

The most important means of obtaining foreign exchange for most developing countries is through exporting raw materials or processed goods to the world community. Much of the North-South dialogue has therefore revolved around developing countries' desire for higher and more stable prices for raw materials and improved market access for their manufactured goods.

Many developing countries, particularly the poorest, depend heavily on official development assistance to obtain their foreign exchange. They demand larger, more automatic transfers of resources on concessional terms with a minimum of political and economic strings attached.

Finally, developing countries, particularly the more advanced, can also open their doors to foreign investment or obtain loans from private capital markets. They obtain resources in the present in return for promising to allow payment of profit, interest, and principal in the future. The terms and conditions under which international investment and capital borrowing take place, and what happens when disputes arise, are therefore another important area of debate involving resource flows.

Developing countries also want to assure that increased resource flows will be used productively. To this end, they want to see increased the amount of scientific and technological research which will be of benefit to the developing world. They would like to improve the terms under which technology is transferred through private and public means to the developing world. Finally, they want to increase their own capacity to develop, select, adapt, and apply technology to their specific requirements. These themes were highlighted in the U.N. Conference on Science and Technology for Develop-

ment (UNCSTD) held in Vienna last year and run through the negotiations on an international code of conduct on technology transfer being conducted under UNCTAD auspices.

The developing countries have also sought through the North-South dialogue to increase their role in international economic decisionmaking. The dialogue itself, by highlighting the economic concerns of the developing countries, partly accomplishes this goal. In addition, the developing countries have pressed for increased voting power in institutions such as the IMF, have sought to move debate on particular issues to fora they find politically more hospitable (e.g., UNCTAD for trade), and have proposed new institutions in which they have a greater role at the outset. The establishment of the International Fund for Agricultural Development, in which developing countries have two-thirds of the vote, and the voting structure being negotiated for a Common Fund, both reflect this pattern.

In sum, the goal of the developing countries in the North-South dialogue is to restructure the international economic system—to create a new international economic order—which has as primary objectives the promotion of their development and what they consider a more equitable distribution of the world's wealth.

### U.S. Concerns

We understand and sympathize with the aspirations of the developing countries. However, we also have an enormous stake in the continuing smooth functioning of the international economic system. We are the world's largest exporter and importer of both raw materials and manufactured goods, the largest overseas investor, and the largest international debtor as well as the largest creditor. Major changes in the system can thus have important implications for our own welfare.

As we look back over the past three decades, we believe that the system has responded flexibly, if not always smoothly, to major changes in the world, including the growing economic and political importance of the developing countries. We favor continued evolution of the system to meet new situations. But suggested changes must have a high probability of improving the system for everyone—if this is not the case, it makes no sense to disrupt a system which works reasonably well.

We naturally have additional criteria with which we evaluate suggestions for changes in the system. We want a system which provides the stability and predictability that promotes trade and

facilitates financial transactions—transactions which are increasingly long term in nature. This does not imply a system which resists change but rather recognizes that national social and economic structures can only absorb change at a reasonable pace. Sudden changes in the rules of the game for investment and financial transactions or massive shifts in trade patterns tend to inhibit overall economic activity. Thus, we favor needed change at a rate which can be absorbed without undue dislocations.

Second, we want an international system which promotes efficient use of the world's resources. As the current energy situation has made us painfully aware, we cannot afford to waste the world's resources—be they capital, raw materials, or human beings. We have thus pursued an international system of basically open trade and free capital flows. We are convinced that such a system will result in countries benefiting from their comparative advantage and increased global efficiency.

Additionally, as we are all well aware, industrial countries are faced with domestic budgetary constraints, particularly in these times of stagflation. This is a major reason that we find it difficult to accept some of the developing countries' most pressing and legitimate claims, such as those for more official assistance and greater access to our markets. These are claims which do not jeopardize the world economic system but do require increased expenditures on aid and adjustment programs for workers and industries affected by increased imports.

### Progress in Global Negotiations

In a sense, then, the North-South dialogue involves weighing a variety of politically, economically, and socially desirable goals—development, growth, efficiency, equity, and stability—in evaluating specific policy proposals. This is not dissimilar to the same kind of evaluation which the executive branch and the Congress must make in determining domestic policies. In both cases, it is a complicated process, but one in which progress is possible and imperative.

And progress has been made in the North-South dialogue. Measures have been taken which benefit both developed and developing countries and which have brought developing countries more fully into the international economic system. Without going into great detail, a few examples can be mentioned.

- In commodities, new agreements on rubber and sugar were negotiated, and the United States joined the tin agreement. Negotiations are well along on a Common Fund with a final package hopefully to be concluded in June. Liberalizations of the IMF's Compensatory Finance Facility in 1975 and 1979 are particularly useful to raw materials exporters.

- In the Tokyo Round the industrial countries agreed to cut tariffs by about one-third and impose greater discipline on nontariff trade barriers. In addition, the United States signed 27 bilateral agreements with developing countries. Further, all the industrial countries had previously implemented preferential tariff systems to help less developed countries.

- In finance, new facilities established in the IMF and enlarged quotas can make resources available to meet a variety of developing-country adjustment problems in larger amounts and on more flexible terms. Two weeks ago agreement in UNCTAD was reached on a restrictive business practices code.

- Regarding development assistance, in the past 4 years replenishments involving over \$100 billion have been negotiated for multilateral development banks and funds. This includes \$40 billion for the World Bank's general capital increase, which will guarantee its ability to operate well into the 1980s. The International Fund for Agricultural Development was established in Rome. Individual industrial and OPEC [Organization of Petroleum Exporting Countries] countries have expanded their own assistance programs.

- Special attention has been given to the poorest developing countries. Official development assistance to them has risen from a level equal to about 4.1% of their combined GDP in 1971 to approximately 10.3% in 1978.

- In technology, we agreed at UNCSTD to the establishment of an interim fund for science and technology for development. Earlier, at the Tokyo summit, we agreed to double the resources of the international agricultural research centers, which focus on developing country agricultural problems.

If we wish to continue to make progress in the North-South arena, we should consider what factors have contributed to successful outcomes in the past. Two points are worth emphasizing. First, the dialogue has been most productive when it has been focused on specific issues and on realistic proposals. UNCTAD II dealt with trade preferences and UNCTAD IV on commodity

agreements and the Common Fund. Developing countries continued to press these themes at subsequent international meetings, and positive accomplishments were eventually forthcoming.

Second, progress is most likely when there are clearly mutual interests involved, rather than one side asking the others to make concessions without getting anything in return. Regarding commodity policy, for example, the United States responded in the belief that stable commodity prices and production benefit consuming as well as producing countries. Unduly low prices discourage producers and can lead to subsequent shortfalls and high prices, and sharply rising prices have an inflationary impact on consumer economies. Similarly, liberalizing the Compensatory Finance Facility not only helped raw material producers to offset temporary shortfalls in their export earnings but enabled them to maintain their demand for manufactured goods at a more constant level, thus having a beneficial countercyclical impact on producers of capital goods.

### Factors Impeding Progress

These conditions have sometimes been lacking. Last year at UNCTAD V in Manila, for example, the developing countries produced a long list of demands but with no particular focus. The conference was hence an unstructured affair which produced limited results. Developing countries prepared their positions for UNIDO [U.N. Industrial Development Organization] III in the highly political atmosphere of Havana and not only produced another long list of demands with little focus or attention to the interests of industrial countries but also put forth a totally unrealistic proposal for a \$300 billion North-South fund for the promotion of the industrialization of developing countries. Once again progress proved impossible.

One reason it is so difficult for developing countries to limit their attention to a few priority items is the wide diversity of interests among them. The poorest countries need increased official development assistance, middle-income countries want balance-of-payments support and improved conditions for commodity trade, and the wealthier developing countries are most concerned about access to markets for industrial products, to private capital markets, and to technology. Oil-importing countries want stable oil prices and help to pay for the oil; oil-exporting countries worry about industrial-country inflation and security of their financial assets. Policies which might help one group of developing

countries are of limited value or even detrimental to others. This results in formulating a list of demands based on a maximum common denominator, which satisfies their collective political needs but limits their political effectiveness in dealing with industrial countries, and greatly complicates the overall dialogue.

### Future Approaches

As we prepare for global negotiations, we have carefully reviewed our experience in North-South discussions and examined the critical problems we see ahead. We know we are moving into a period of high oil prices, relatively low economic growth rates, and major financial imbalances. Slow growth and trade deficits will tempt many parties to urge protectionist trade measures. Further, a number of developing countries will face increased food shortages by the mid-1980s.

In the next few years we must find ways to use energy more efficiently and locate new energy sources. We must find ways to assure that the enormous OPEC surpluses are recycled to allow reasonable growth levels to continue. We need to resist protectionist pressures and to assure growth in food production.

In the longer run, we must be certain that all countries can and do increase their production of conventional and nonconventional energy, as we move away from economies based on petroleum to ones based on a broader mix of energy sources. We need to encourage all countries to take positive measures which will encourage their economies to adjust to changing conditions, and we must help developing countries increase their food production.

These are major tasks, which must be pursued on many levels and in many fora. Some may be too urgent to await attention in the global negotiations. For example, the IMF and the International Bank for Reconstruction and Development [IBRD] already are examining new ways in which they can respond more effectively to the financial problems caused in large part by the recent rise in oil prices. But the global negotiations provide one mechanism which could help address these problems. The United States has accordingly devoted considerable attention to examining ways in which the international community might take maximum advantage of the global negotiations.

We suggested at the outset that we should try to focus the global negotiations on a limited number of subjects of interest to all participants where there was a realistic possibility of achieving tangible results. When the developing countries nonetheless presented a lengthy agenda including almost all topics covered in North-South discussions over the years, we urged that, at a minimum, the participating countries agree to focus immediately on an early action program which would address critical problems.

Specifically, we proposed that the global negotiations immediately turn its attention to four topics:

- A worldwide trade pledge to resist protectionist pressures and to promote positive adjustment;
- Assistance for exploration and development of energy resources in energy deficient countries;
- Improved world food security by fulfilling national targets of the food aid convention, backing these commitments with food aid reserves, and improving food storage and distribution in developing countries; and
- Suitable steps to facilitate the recycling of payments surpluses.

We are certainly open to other suggestions. But we emphasize that in such an early action program, we should select critical issues on which early agreement is possible. The global negotiations could identify these key issues and provide the political impetus needed for negotiating specific agreements in specialized fora, where they exist, or in the global negotiations themselves when there are no other appropriate fora. Once an early action program has been launched, the global negotiations could turn to longer term problems, such as food production, population and health, and structural adjustment.

We are pressing this approach in the preparatory work for global negotiations and in the special session itself, if agreement on an agenda for global negotiations has not been reached by that time. It should perhaps be reiterated that global negotiations are but one forum to address these problems. And it should also be pointed out that global negotiations, even if successful, will not solve all of the problems of the less developed countries. The negotiations and the North-South dialogue in general must be kept in perspective. Genuine economic development depends on a complex variety of factors. The institutions and the rules of the international economic

system are of course important. But at least as important are the policies of the major industrialized countries with respect to inflation, growth, and trade, which together set the tone of the world economic environment. And, of course, the most critical variables are the developing countries' own policies, which influence either positively or negatively the millions of economic decisions by households, entrepreneurs, and firms which must provide the core of economic development. After all, we have examples of economic success stories and economic disasters among the developing countries—both occurring within the existing international economic system.

Unfortunately overall development policy—as opposed to specific demands—is seldom addressed in North-South fora. The negotiation of an international development strategy for the 1980s is an exception, where greater attention is paid to the contributions both industrial and developing countries ought to make to development.

Like its predecessor of the 1970s, the new international development strategy is intended to set down a more systematic and more rational approach to economic and social development. It should provide a basis for meaningful coordination of national and international programs. By supporting provisions for reviewing development progress, we hope to make the strategy a document of continuing relevance through the decade.

Negotiations, however, have been contentious and the Group of 77 (G-77) and the industrialized countries still have major differences on the content of the new strategy. The developing countries are pushing for growth targets to be accepted as commitments, rather than as indications of what we hope can be accomplished. They also have included in their suggestion for policy measures a series of proposals for special development funds and other transfer mechanisms to which the industrialized countries cannot agree. There is one more regular negotiating session before the special session on which occasion the strategy is scheduled to go into effect to guide the United Nation's Third Development Decade.

The 11th Special Session, then, provides a unique opportunity both to launch a process of global negotiations which focuses on improvements in the international economic system which might benefit us all and to address questions of development strategy and goals which might better define how both industrial and developing countries can accelerate economic development. This is an important opportunity which we cannot afford to waste.

## MR. EHRLICH

The last decade has been marked by periods of tension between developing countries of the South and industrial nations of the North. At times each group has been deeply suspicious of the other's motives and has expressed widely differing perceptions of global needs and priorities. This pattern may well persist; relations between developed and developing countries may periodically be abrasive far into the future, particularly in multilateral settings. But this reality in no way diminishes the need for the governments of all nations to meet on common problems of global concern. Indeed, over the course of the last decade, significant progress of mutual benefit to both developed and developing countries has been achieved in areas of trade, monetary and financial affairs, commodities, and food and agricultural development. In the decade ahead it will remain in our interest to continue to work with developing countries on problems of common concern. Global negotiations provide one—among many—occasions for partnership.

Last December, when the United States agreed with other U.N.-member states to prepare a new round of global negotiations, we said they could make useful contributions to resolving international economic problems if they focused on a limited number of specific issues. We also said that the negotiations should give momentum to ongoing efforts in other international organizations. From a development perspective, the need to set priorities and not to disrupt or duplicate ongoing activities is still a key requirement.

We are now working with other countries to establish the agenda and procedures for global negotiations. This may be a difficult and trying process. The United Nations is a highly visible, political forum. Discussions take place among more than 150 countries with widely disparate needs, capabilities, and interests.

Before discussing the issues that those and other aspects of our relations with developing countries might usefully address in the year or two ahead, I want to underscore deep concern about one legislative problem. If not corrected, it could cripple our efforts to strengthen ties with nations of the South as well as bring to a halt vital support for development throughout the Third World.

Several weeks ago the House refused to approve the conference report

on legislation to authorize our participation in several of the regional multi-lateral development banks. I emphasize at the outset, however, its importance for our development policy concerns, for our continued leadership in North-South relations, and for the credibility of our position in preparation for the global negotiations. We have stressed that on monetary and financial issues the fora for negotiations are the IMF and the multilateral development banks.

My comments this afternoon will emphasize four main points.

- It is in our interest to focus serious attention on the problems of development and on economic negotiations with developing countries; and it is in our interest to be perceived as serious.

- Among the priority development issues for the 1980s are food, energy, population, and economic adjustment. These concerns are important to us as well as to developing countries. And they correspond to our priorities in development assistance.

- Those four issues are substantively interrelated; prospects for mutually acceptable progress on each of them would be enhanced by attention to the interrelations.

- Global negotiations can contribute to progress on these issues. Those negotiations are not the only context in which we are discussing food, energy, population, and economic adjustment. We are also addressing these and other concerns in negotiations with developing countries on a new international development strategy and elsewhere as well. But the global negotiations do offer a prime opportunity for progress. It would be misleading to be enormously optimistic; a significant dose of healthy skepticism is essential about any prospective international undertaking, particularly when the agenda is, quite literally, global. But it would be equally wrong to be only pessimistic, for we believe that real gains for all nations are possible through the global negotiations.

## U.S. Interests

Against that background, I begin with the profound importance to the United States of helping to promote development and working with developing countries to solve problems of mutual concern. Earlier this year, a distinguished international commission [Independent Commission on International Economic Issues or Brandt Commission] issued its report on North-South relations. It was headed by former West German

Chancellor Willy Brandt and included leaders from developed and developing countries, including two eminent Americans. Later this year the International Development Cooperation Agency will report to the President on the results of an interagency review of the commission's recommendations. The central theme of the Brandt Commission report is the common interest of nations within both the North and the South in meeting the challenge of development and in responding to specific global economic problems. For us, this common interest relates not only to the humanitarian concerns of our people but also to our political, economic, and strategic future.

**Political.** We have important political interests in helping to promote development among Third World countries. And we have political interests in maintaining an international economic order in ways that benefit all nations. We seek a world at peace—in which each nation honors the others' national independence, in which the people of each nation participate in its political process, in which each nation respects the human rights of its citizens, in which

- 800,000 American jobs in manufacturing alone depend on exports to developing countries.

- We export 50% of our cotton, 65% of our wheat, and 70% of our rice to the developing world.

- To a growing extent we must rely on developing countries for vital materials. For example, the United States imports 100% of our tin requirements, 90% of the bauxite used for aluminum, and all of our natural rubber needs from developing countries. Most important, 41% of the petroleum we use comes from developing countries and roughly half of that from nations outside the Middle East.

- And as of 1978, American firms have invested over \$40 billion in developing countries, nearly one-quarter of our total foreign direct investment.

These are a few examples of our deepening economic involvement with the Third World.

**Strategic.** The United States has another critical stake in relations with the countries of the South. Developing nations are vital to the resolution of a wide range of global problems that concern the American people directly—from

related, although they are by no means synonymous. Development is one goal of North-South economic negotiations. It is explicitly the focus of concern of negotiations on an international development strategy for the decade of the 1980s. That strategy, thus far the subject of considerable disagreement between developed and developing countries, aims to set long-run objectives for development cooperation. Goals for actions by developing as well as developed countries are the subject of the negotiations on the international development strategy. But, clearly, there is much we can do to support development that is outside this and other North-South negotiations. And there is much that developing countries need to do within their own societies, quite apart from the efforts of other nations to help them.

Conversely, North-South negotiations are about more than promoting development. They are about the rules, principles, and procedures governing international economic relations. Of particular importance, they are about the role and responsibility of both developing and developed states in the management of the international economic system. The challenge for us as well as for all other countries is to deal with North-South issues in a way that is conducive to meeting both development concerns and other global economic goals.

For all these reasons, we should be—and be viewed as—serious about engaging in substantive negotiations with developing countries on issues of mutual concern. This means that neither the United States nor other countries should approach the North-South dialogue as a discussion of what the rich can give the poor but rather as one of several means by which nations can work together to meet global economic problems for their mutual benefit.

Taking the North-South dialogue seriously also means that we cannot begin with unalterable positions. We cannot dictate unilateral solutions. Nor can other countries. We are talking about a negotiating process. As in any negotiation, there must be real give and real take.

We need now to arrive at an agreement with developing countries on an agenda of priority issues on which both sides are prepared to enter active negotiations. We have urged this problem-solving approach concerning the global negotiations and in the key inter-

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each nation strives to meet equitably the economic aspirations of its people.

Development is often destabilizing. Pressures to redistribute economic and political power can be unsettling. But the resulting changes are not as threatening to peace and international stability as the dangers of pent-up rage from injustice and hunger. The question is not whether change from development should occur, but whether change will be channeled in constructive directions. Development, with our help, is the best hope for a world in which human and political liberties flourish. The road to this goal may be rough, but our interests are clearly served by conducting relations in a way that promotes development.

**Economic.** The growing economic basis for our interests in developing countries is also striking.

- More than one-third of U.S. exports are shipped to developing nations.

the peaceful resolution of disputes in Africa to the protection of our Earth's environment. Wasteful use of the Earth's resources, pollution of the Earth's atmosphere, international terrorism, nuclear proliferation, unchecked arms competition, and the pressures of rapid population growth, all threaten the well-being and safety of the human race. None can be solved without the involvement and cooperation of developing nations.

**Humanitarian.** Finally, overwhelming humanitarian needs require us to work with Third World governments to help poor people in their countries. Almost one billion of those people live in absolute poverty. They lack safe drinking water, access to basic health care, and other essentials. Fifteen million children die each year from malnutrition and infection.

Our political, economic, strategic, and humanitarian interests can be served by U.S. support for development and by progress in North-South negotiations. The North-South dialogue and development efforts are intricately inter-

national financial institutions. That approach is antithetical to putting every possible demand on an agenda. Sharp focus on key problems is the only way that the dialogue between North and South has made—and can continue to make—progress on critical problems that affect both prospects for development and the health of the global economy.

### Key Issues

The main point I want to emphasize today can be simply stated. The most pressing development goals we believe the world community has for the 1980s are: economic adjustment, food, energy, and population. Those issues are important to the Third World prospects for development. They are issues on which sufficient international consensus can be generated to enable agreement on specific actions. And their resolution would be consistent with U.S. interests. Let me describe, briefly, the central features of each issue, beginning with adjustment.

**Adjustment.** By adjustment, I mean the necessary process within all societies of accommodating to changing world economic conditions, including the higher costs of energy and the payments imbalances they engender. For many developing countries the need to adjust to structural imbalances has become the major medium-term challenge to achieving sustainable economic development.

In the past, in dealing with problems of developing country deficits and adjustment, adjustment has been synonymous with austerity. In the 1960s and early 1970s, many developing countries sought short-term balance-of-payments support to help in difficult years when imports exceeded exports. In response, they were generally told to tighten their belts. Now we are considering adjustment in a broader dimension. We are considering adjustment to structural changes in the global economy, and this is going to have to entail the reallocation of investment in developing countries geared to increasing their exports and reducing their imports of goods they can produce efficiently at home. This includes—of particular importance—developing alternative energy resources and making greater strides to achieve food self-sufficiency when economically feasible.

Without the changes, those countries will be overwhelmed by financial and political strains. To help promote the changes, suitable steps to facilitate the recycling of payments surpluses will be needed and adequate levels of development assistance provided for the poorest countries.

The rise in oil prices, as you well know, has led to enormous OPEC surpluses. The oil price increases have also led—directly and indirectly—to sizable increases in current-account deficits of Third World countries already much in debt. Although the situation is manageable in 1980, looking at 1981 and beyond, there is cause for concern and careful attention. Crippling financial difficulties may well arise in some countries, if, as we expect, the real price of oil remains high and there is a significant slowdown of exports from developing countries to developed nations.

Third World nations that import oil will face current-account deficits this year of \$50 billion compared to \$14 billion just 3 years ago. The deficits in 1981 are likely to be even larger. More than half of these deficits are concentrated in countries that have borrowed heavily, mostly from private banks. The scale of further commercial bank lending to help these countries in 1981 and beyond is uncertain. For the poorest countries, almost wholly dependent on concessional assistance, prospects for continuing growth and development will be bleak without increased flows of development assistance.

The United States and other members of the International Monetary Fund and the World Bank are now considering ways to help developing countries adjust. A crucial factor in providing assistance—a central element of adjustment on a global scale—will be successful recycling of oil revenues that have accumulated in some OPEC countries.

Adjustment on a global scale will also require all states to resist the temptation to retreat into protectionism. It is tempting to use trade restrictions to export economic difficulties. But this path, which may seem helpful in the short run, invites retaliation and breakdown of the international system in ways we all can remember.

**Hunger.** A second problem that the international community must address seriously is the elimination of hunger. Both the Presidential Commission on World Hunger and the Brandt Commission urge attention to this problem as a matter of priority. Recent events in Southeast Asia, Somalia, and elsewhere have heightened international awareness of the precarious food situation in many of the poorest developing countries. The number of undernourished people in these countries is continuing to expand. Furthermore, poor people in low-income

countries are increasingly vulnerable to periods of acute food shortages.

To overcome the fundamental causes of hunger, developing countries need to increase their food production, raise the incomes of their people to enable them to buy food, and develop efficient internal food storage and distribution networks. For countries willing to take these necessary steps, adequate international assistance ought to be made available by all countries with the financial capacity to provide it. Furthermore, the international community ought to help to insure that poor countries have the means to meet their food import needs; and that community should continue to seek ways to enhance the stability of the international grain market.

**Energy Production.** Increased energy production in developing countries is a third common concern: World economic prospects depend critically on the ability of all societies to reduce the link between imported oil supplies and economic growth. The problem is particularly acute for non-OPEC developing countries. They are less and less able to bear the financial burdens those imports entail.

Continued economic growth of developing countries will probably mean that their share of world oil demand will increase from 6% to 25% of total demand within the next decade, further straining the world oil market.

One of the promising approaches to today's energy problem—in addition to rigorous conservation efforts—is to increase energy exploration and development within non-OPEC developing countries. As much as 40% of the oil yet to be found may be in those countries. And renewable energy sources in Third World nations must be pursued with equal vigor.

**Population Explosion.** Finally, we and others should recognize that today's population explosion is as serious and as central a problem as adjustment, food, and energy. Rapid growth in population limits development everywhere. In the poorer nations, it frustrates efforts to end the poverty, malnutrition, and degradation that are the lot of one-quarter of the world's people. In many countries of Africa, for example, though food production is expanding, population is increasing faster. The result is a growing number of starving people and increasing pressure on the world's resources.

We now face the prospect of a population increase in the final quarter century that will equal the entire growth

of the world's population in the last 2,000 years. If current trends persist, the world's population of 4.5 billion people will more than double before stabilizing in the 21st century.

Too few developing countries are now paying enough attention to population, and too few industrial nations are providing significant support in this area. Population aid currently accounts for only 2% of total development assistance worldwide. The United States has been the leader in this field—in terms of both emphasis and volume of aid. The United States will give \$195 million this year for family planning assistance. We are also urging other donors to do more. An increasing number of developing countries share our concern. Thailand, Indonesia, and Colombia, for example, have given much attention to population over the last decade; their declining birth rates testify to the success of their efforts.

### A Framework

Given the importance of these four issues, how can they best be considered? Analysis shows, I think, that food and energy have several similar characteristics, and that these and the other two issues—adjustment and population—are substantively interrelated problems. In regard to both food and energy, international action is needed to promote: security of supply; increased production in developing countries; and financing required by poor countries to pay for increased production and imports.

The adjustment issue relates to both the demand side and the supply side of the food and energy problems. On a national scale, adjustment in many developing countries includes the production of more food and energy. As part of the adjustment process, but on the global scale, there is a need for avoiding protectionism and for increasing financial flows—or recycling—to developing countries to support their adjustment efforts. If one asks the question “recycling for what?”, one is immediately led back around to the need in many developing countries for increasing production and financing imports of food and energy. Population is a critical companion issue because of the long-term pressures that high birth rates place on critical resources.

Progress on any or all of these issues will benefit every nation. Progress on the issues also calls for action by every nation.

- All countries must be prepared to reduce long-term demands on the world's limited resources. This includes making real strides in energy conservation. For developing countries, it also means making a greater effort to increase agricultural production and to reduce population growth rates.

- At the same time, we in the United States should recognize that—just as we seek energy security—those who depend on food imports seek food security through increased production and an adequate system of grain reserves.

- OPEC countries, for their part, should recognize their greater official responsibility for recycling the surplus capital that results from higher oil prices. Since 1973, Western countries have assumed most of the financial risk of recycling, largely through private commercial banks. In the future the surplus countries should assume more of that risk.

We are now in the process of preparing an agenda for global negotiations with other countries. We cannot guarantee the final outcome of those discussions. But we will continue in the next several months to urge particular focus on a short list of key concerns. And we will continue to direct attention to the central issues I have been discussing in this context and in the context of other North-South negotiations and consultations.

### MS. SPERO

Much of the North-South economic dialogue takes place in New York at the United Nations, and our mission to the United Nations heads the U.S. representation in these talks. Thus, I am here today to talk to you about the process of the North-South economic discussions in New York: the dynamics of the North-South negotiations themselves and the political environment within which discussions are conducted.

At the United Nations, economic issues are among the principal concerns of developing countries. Problems associated with poverty and the quest for economic development in Third World nations are enormous. With world inflation, recession, and the oil crisis the problems are becoming increasingly serious. In the view of the less developed countries (LDCs), the developed world and many of the existing international economic institutions pay insufficient attention to their economic plight and to their develop-

ment needs. What the LDCs want is to create a new international economic order which will promote their development and which will thereby lead to a more equitable distribution of the world's wealth.

In order to draw attention to their problems and to achieve this new order, the developing nations feel they need a forum that commands maximum visibility, insures high-level participation by developed states, and offers procedures which make possible participation by all governments. The U.N. General Assembly and the subsidiary economic bodies it has created meet these requirements. They are highly visible. Their debates receive high-level attention in the capitals of the industrialized world. And all nations participate in their deliberations on an equal basis regardless of size, wealth, or strength.

Hence, the United Nations has been the focal point for the conduct of North-South negotiations. Indeed, during the last decade all high-level North-South meetings, except for Conference on International Economic Cooperation (CIEC), were conducted under U.N. auspices—some in New York and some elsewhere. The United Nations in New York—particularly the General Assembly—will continue to be a central forum for North-South issues. The procedures, practices, and organization of the U.N. system therefore will continue to be important features in shaping the North-South dialogue.

We in New York are now engaged in the most recent phase of the North-South dialogue: preparations for the special session of the U.N. General Assembly which will be held in late August and early September of this year. Two central topics for discussion, and we hope agreement, at the special session will be the U.N. international development strategy for the 1980s and the global round of negotiations. We at the U.S. mission are now engaged in intensive preparatory negotiations for the special session.

### Dynamics of the Negotiations

Before describing those negotiations, it may be useful to review the context of North-South negotiations and specifically the dynamics of the interaction among the principal economic working groups at the U.N.

The less developed countries cooperate closely on economic issues in

the United Nations through the G-77. The G-77 emerged as less developed countries sought to mobilize and maximize the bargaining advantages which derived from their growing numbers and voting strength in the General Assembly. The Group was initially created in the early 1960s by the united action of 77 countries at UNCTAD, the U.N. Conference on Trade and Development, and has evolved as the principal vehicle for developing country cooperation on economic issues at the United Nations.

Let me clarify a few points about the G-77. The G-77 is not the same as the nonaligned movement, although the membership of the two groups overlaps substantially. The 119 members of the G-77 represent virtually every developing country, including some that are aligned with one or the other of the major blocs. In contrast to the nonaligned movement, the G-77 focuses its attention almost exclusively on economic issues. It is a highly decentralized, though cohesive, body with annual revolving chairmanships. The G-77 places great stress on, and has succeeded, in achieving a large measure of group solidarity. There exist, however, considerable economic and political differences among developing countries, which reflect the various levels of development they have attained, the approaches they prefer to take toward development, and their access to resources, particularly oil.

In addition to the G-77, there are two working groups in New York. There is no formal industrialized country group but instead a loosely coordinated, informal working group, whose members represent governments which belong to the Organization for Economic Cooperation and Development (OECD). These delegations participate actively in the North-South dialogue. The group of Eastern bloc Socialist states, remains on the sidelines for the most part, on the pretext that, Western nations, as former colonial powers and as dominant forces in an exploitative international market, are solely responsible for the Third World's economic problems.

There are advantages and disadvantages to conducting North-South negotiations against the backdrop of these working groups. The G-77 can be an extremely rigid negotiating body. Because of its size, it is cumbersome and slow moving. The need to present a united front encourages the G-77 to adopt a "lowest common denominator" approach that simply adds up individual claims and concerns of the members and

reflects the tremendous diversity of national interests among the Group's members.

The need to present a united front and the lowest common denominator approach inhibit the setting of priorities and also make the Group rigid in negotiations. Having carried out intense internal negotiations to develop a group position, it is difficult for the G-77 to be flexible in altering its demands and positions in the process of negotiation beyond the Group. Finally, such a large group of 119 nations must rely on strong leadership by a few, often self-selected, activist nations and individuals. If the G-77 activists are radical, as they have been at times in the past, they are able to exert a disproportionate influence on the Group's positions. All these factors create a strong tendency for the G-77, as an institution, to polarize North-South negotiations.

There are, however, positive aspects to the existence of a group of developing countries. The existence of the Group has enabled us to focus on the valid needs of developing countries and provided us with a necessary interlocutor both in formal and informal consultations. The G-77's insistence on consensus can also lead to moderation. Under responsible leaders, like that of the present Indian chairman, the G-77 can reach effective compromises that take into account the interests of both industrialized and developing states. These more moderate leaders can inject an element of realism in the Group and help it achieve greater flexibility and thereby aid us all to achieve agreement on issues of common concern. These negotiating dynamics have great importance for the series of North-South negotiations on which we are now embarked. The key conference will be the General Assembly special session on development, scheduled to be held just before the regular General Assembly this September. The special session was originally scheduled over 2 years ago, for the purpose of approving the international development strategy and thus launching the United Nation's Third Development Decade, but its mandate was expanded last year also to include responsibility for launching the global negotiations. It is now likely that the special session will itself become a major negotiating forum. The negotiations for a new international development strategy have been going on for more than a year. Progress has been

limited, and there will be only one more 3-week preparatory session in June before the special session.

The new international development strategy will be a complex document, intended to provide a long-term blueprint for efforts on the part of governments and international institutions to promote economic and social development in the 1980s. It attempts to establish economic and social goals, objectives, and specific targets to be achieved over the course of the decade, to accelerate the development of Third World countries as well as to sustain global development. The strategy will also contain specific policy measures to implement its objectives and targets.

The G-77 has been attempting to include in the strategy commitments by developed countries to increase official development assistance as well as to provide financial resource transfers and reforms in the international monetary system. For our part, the United States and other developed countries have attempted to introduce the concept of necessary reforms within developing countries to facilitate their development, particularly in the area of social development. We would also like to see the strategy provide for a system of review and appraisal which would evaluate all countries' performance.

## Global Negotiations

In conception, global negotiations are to be a new departure for the United Nations. The intent of all parties is to engage in truly meaningful negotiations about difficult economic issues. The United States is anxious to avoid the pitfalls of some past U.N. negotiations. In particular, we want to avoid getting bogged down in the negotiation of omnibus "declarations" in which real disagreements are papered over with acceptable, but ultimately meaningless, language. We mean to achieve real, not merely rhetorical, results.

To that end, the resolution of the last General Assembly for global negotiations authorized its Committee of the Whole to act as a preparatory committee for the global round. The Committee of the Whole is charged with making agreed recommendations on an agenda, procedures, and a timeframe for completing the negotiations. The Committee of the Whole is currently holding its third preparatory meeting and will reconvene once more in June prior to presenting its results to the special session. The committee has not yet reached consensus on the difficult issues it faces, but it has grappled with all of them. Let

me review for you the results of the committee's early sessions on agenda and procedures.

A very long agenda has been proposed by the G-77. It constitutes a virtual compendium or "shopping list" of all recent economic proposals by members of the Group in various international fora. Some proposals address serious issues of mutual concern while others reflect more narrow interests less appropriate for global negotiations. Although we understand the group dynamics leading to such an omnibus proposal, we feel that, unless it is subjected to rigorous priorities, the G-77 agenda would likely lead to only superficial discussion—and meager results—in the timeframe of less than 9 months (January to September 1981) generally envisaged for the negotiations.

For our part, the United States believes that priority attention and actual negotiations should focus on a few issues of paramount urgency which also offer the possibility of early, concrete results. With other OECD countries, we have suggested food, energy, and protectionism as agenda items. The United States has proposed the four-point early action program, including a trade pledge, further development of energy resources in energy-deficient countries, improved world food security, and facilitating recycling of payments surpluses.

In the Committee of the Whole, the European Community and Switzerland have made rather detailed proposals on agenda which are compatible with our approach. As yet, however, there is no meeting of minds on agenda, but we hope the last preparatory session, in June, will bring us close to a workable compromise.

Both the United States and the G-77 have already indicated their preferences for procedures to govern the global negotiations. We and the other OECD countries favor decentralizing the negotiations. Multilateral fora such as the IMF, IBRD, General Agreement on Tariffs and Trade (GATT), and Food and Agriculture Organization (FAO) exist for discussing many of the most pressing international economic issues. We would prefer to take up these issues in the fora which have made the mandates and the expertise to conduct such negotiations. Where no global forum currently exists, as is the case with energy issues, we might expect global negotiations to lead to the formation of some mechanism within which continuing discussion can take place. We have also emphasized that we do not wish to interfere with ongoing negotiations in whatever U.N. fora.

Under our proposals, the central forum in New York would by consensus agree on general objectives for negotiation in specialized fora. After the specialized fora have completed negotiations, the central body would review their results.

The G-77 has a different view of the way in which the negotiations should be conducted. They would prefer that a single global forum be set up to negotiate all issues, regardless of the existing mandate and competence of specialized agencies.

### **U.S. Objectives**

Global negotiations are high on the list of priorities of the U.S. Mission to the United Nations. Mission staff has been very actively involved in the work of the Committee of the Whole, seeking the sort of focused agenda and procedures which will facilitate realistic negotiations toward achievable ends.

In this enterprise, we of course work closely with our Washington colleagues. To the extent the U.S. mission can play a special role in the global negotiation process, it arises out of our intimate knowledge of the United Nations and our constant contact with the G-77 and with the delegations of developed countries in New York. In the coming months, our special objectives include:

- Improving the coordination of our strategy with other developed countries;
- Working with the G-77 to assure an acceptable and realistic agenda for the negotiations;
- Achieving decentralization, so that we can respect the mandate and take advantage of the expertise in existing U.N. fora; and
- Finding ways to increase informed and serious consideration of the substance of issues.

We anticipate that global negotiations will be a long and arduous process with no quick and easy results in sight. But our approach need not and should not be confrontational in order to protect our own national interests while contributing to the larger common good of the international community. There is some give and take on every good-faith negotiation and we have high hopes that satisfactory progress will be made in global negotiations to improve the international economic environment for both developing and industrialized countries.

### **MR. BERGSTEN**

There has been a great deal of progress in North-South economic relations during the past 4 years. Significant results with mutual benefit to all sides have occurred on trade, monetary, commodity,

food, energy, and resource-transfer issues. There is, to be sure, much more that can be accomplished. But the key to further success is twofold: a realistic recognition of both the achievements of the past and the needs of all nations, developed and developing, and a commitment to pursue the common interests of all rather than to seek benefits for one group at the expense of another.

Some observers have suggested that North-South relations could be headed for extremely rocky times over the next 4 years. It is certainly true that the crippling effect of higher oil prices, coupled with the dual problems of inflation and recession in the developed countries, may continue to cause serious problems for some developing countries. These and other key economic issues can, however, be addressed constructively through existing international institutions which have served the global community well in the past such as the International Monetary Fund, the multilateral development banks, and the General Agreement on Tariffs and Trade. We must continue to use these functionally specific fora to consolidate the progress already made; they hold the expertise, the experience, and the basic commitment of governments which are essential for further progress.

The capability of the United States to reach agreements of mutual benefit and to avoid acrimonious political debate, however, is severely handicapped when the credibility of our negotiating posture is weakened by perceptions of our inability to deliver. I refer specifically to the current need for congressional action with regard to authorization and appropriation legislation for multilateral development banks, which I will address in more detail later.

My comments today will focus on two key issues: first, the progress achieved in recent years; and second, the critical need for Congress to support the international financial institutions and the U.S. position therein, given the particular importance of these institutions in the current economic environment.

### **Recent Progress**

The Administration's comprehensive approach to North-South economic relations has led to significant progress on a number of fronts.

**Trade.** The United States reinvigorated the deadlocked multilateral trade negotiations (MTN) and brought them to a successful conclusion. As a result of the negotiations, the major industrialized countries will reduce their industrial tariffs by 33% on a weighted

average basis. A 25% cut in developed-country tariffs will be made on items of traditional export interest to LDCs. U.S. tariff cuts on LDC products, excluding textiles and apparel, average about 35%.

New non-tariff codes on subsidies, government procurement, standards, import licensing, and customs valuation will provide a much more open and stable environment for future trade growth for all nations. The procurement code alone will open over \$30 billion of trade to eligible countries. The agreements also provide a permanent legal basis for special and more favorable treatment of developing countries, accompanied by more liberal rules on trade measures taken by LDCs for development purposes. Since opportunities for trade expansion are probably the single most important feature of the world economy for most developing nations, the MTN agreements mark an enormous step forward in North-South economic relations.

Trade is also probably the most important area of U.S. economic relations with developing countries and provides the clearest example of mutual benefits for industrialized and developing countries alike. Exports are an important generator of U.S. investment, production, employment, and income. The non-oil LDCs are by far the fastest growing market for U.S. exports, where our sales have tripled from \$16 billion in 1973 to \$48 billion in 1979.

Imports help dampen inflation and encourage competition and, hence, productivity. Despite the fact that the United States accounts for about 40% of the combined GNP of the industrial countries, in 1978 the United States took more than 52% of developing country manufactured exports to all industrial countries. Nearly 22% of all our manufactured imports in 1978 came from developing countries; the corresponding figure for all other industrial countries was less than 5%. U.S. economic growth since the global recession of 1975 has been particularly beneficial to the non-oil LDCs, whose exports grew much faster to the U.S. market than to either Japan or the European Community.

**Energy.** With strong support from the United States, the World Bank plans to support oil and gas projects which, combined with private and government financing, will total more than \$33 billion over the next 5 years. This should ultimately provide an additional 2.5 million barrels of oil equivalent a day to the world market. Our own Overseas Private Investment Corporation (OPIC) has established political risk insurance

for oil exploration, production, and development in developing countries, with significant results already. These multilateral and bilateral efforts will help reduce the dependence of developing countries on expensive oil imports and, at the same time, improve the world energy balance—a clear example of mutual benefit to industrialized and developing countries alike.

**Commodities.** The United States supports the negotiation of stabilization agreements to reduce commodity price volatility, to lessen inflation in the consuming countries, and stabilize resource availability for investment and growth in producing countries. The International Sugar Agreement was finalized in

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*The primary task before us now is to consolidate and make full use of those international economic instruments which have recently been put in place or improved . . .*

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September 1977; the President signed the necessary authorizing legislation in April. The framework of an agreement for the Common Fund has been negotiated and the full treaty is scheduled for completion in June. The Natural Rubber Agreement, completed in October 1979, is now receiving congressional consideration. The United States participated actively in the recent renegotiation of the International Tin Agreement, and has offered to make a stockpile contribution to the current agreement.

In short, the previous U.S. policy of "rejecting commodity agreements on a case-by-case basis" has been replaced by a positive, constructive approach—because we believe such agreements are of mutual benefit to ourselves and the developing countries alike.

**Food.** The Administration has continually sought to improve world food security. It supported the creation of a \$1 billion International Fund for Agricultural Development (IFAD), which is helping the developing countries increase their food production. We have pledged 4.5 million tons of food aid annually under the International Food Aid Convention, nearly half of its 10 million ton target. U.S. farmers, acting on government incentives, placed 35 million tons of grain in reserve during 1977-78; the value of this reserve was demonstrated last year when 14 million

tons were released into the market in response to rising world demand. By ending the set-aside program in agriculture, we have helped provide more food for the world and more markets for our farmers. We have proposed the creation of a special domestic food aid security reserve of 4 million tons of grain, which will guarantee our ability to meet our food aid commitments even under tight market conditions. Indeed, the U.S. Government has already purchased the 4 million tons of wheat destined for this reserve.

The United States has been in the forefront in urging the multilateral development banks to help develop effective food strategies; in particular, we strongly support the World Bank's program to improve food distribution and storage infrastructure in developing countries. The World Bank is far and away the largest single source of external funding for agricultural and food production, providing over 40% of all official commitments to agriculture. Over the 5 years just ended, total lending commitments equaled \$11.6 billion, representing 33% of total lending. The World Bank expects to finance projects which will contribute approximately one-fifth of the increase in annual food production in its developing member countries in the 1980s.

### Strengthening the Monetary System

As the world's central monetary institution, the IMF provides the basic framework for international monetary cooperation. Its resources are made available to all members, developed and developing, to help them implement economic adjustment programs to correct balance-of-payments problems. In the wake of the latest oil price increases, the IMF has expanded its financing activities and in the early months of this year has provided resources and made loan commitments amounting to \$2.8 billion—all for developing countries and more than it lent in all of 1979.

The IMF has increased substantially the resources available for its lending, through establishment in 1978 of both the \$10 billion Supplementary Financing Facility and its sixth quota increase (of which about a quarter goes to developing countries). These countries receive a similar share of Special Drawing Rights (SDR) allocations, which will total \$4 billion annually during 1979-81. The Fund will receive a further injection of resources from the seventh quota increase, scheduled to take effect this fall. And, in light of the size of current-payments imbalances and the attendant adjustment and financing requirements,

the IMF will be conducting discussions with potential lenders on the terms and conditions on which the Fund could borrow additional resources, if and when the need arises.

The Fund has also greatly expanded access to its resources through the Supplementary Financing Facility, the substantial liberalization of the Compensatory Financing Facility, and the quota increases. As a result of these steps, member countries can in some cases obtain financing which exceeds 600% of their quota.

In view of the difficult adjustments which countries must make to the changed economic situation and new energy balance, the period of adjustment and repayment associated with IMF financing has been increased. For example, economic adjustment programs can now be implemented over a 3-year period compared with the 1-year programs normally required in the past. The maturities on IMF loans have been increased to 10 years on Extended Fund Facility drawings and 7 years on Supplementary Financing loans, compared with the 3-5 year repayment periods on regular IMF financing.

Finally, the IMF is examining further steps that might be taken to improve its ability to meet members' balance-of-payments requirements, including actions to reduce the interest cost on Supplementary Financing drawings and the possibility of using part of the Trust Fund repayments to ameliorate the conditions of loans to low-income developing countries.

### Multilateral Development Banks

The multilateral development banks are a cost-effective and efficient means by which the United States can help developing countries help themselves. Because these institutions are at the heart of international efforts to address the fundamental concerns of the developing countries, the Administration has been unwavering in its support of the banks.

For 1979 the Congress voted a record level of appropriations of \$2.5 billion for the multilateral development banks, up from \$700 million voted for FY 1977 before this Administration took office. We have supported a capital increase for the World Bank of \$40 billion and a replenishment of almost \$10 billion for the Inter-American Development Bank. We participated in a new replenishment of over \$2 billion for the Asian Development Fund and an expansion of membership that will increase the capital of the African Development Bank by \$4.5 billion. For International

Development Association (IDA), the largest concessional assistance program in the world, we have completed our contribution of 31% to the fifth replenishment of \$7.6 billion and have pledged 27% to the sixth replenishment of \$12 billion for 1980-82.

### The Need for Congressional Action

Implementation of many of these initiatives now requires congressional action. Several pieces of commodity legislation are still pending. Early floor action is needed on the latest IMF quota increase, already reported out by the Senate Foreign Relations and House Banking Committees.

Most urgent, however, is passage of the necessary authorization and appropriations legislation for the multilateral development banks. The failure of Congress to do so has already resulted in a suspension of lending from the Inter-American Development Bank and the Asian Development Fund. This can have severe economic and political consequences for developing countries throughout the world. It also weakens U.S. influence in these institutions, and in overall North-South relations, and leads other donor countries to doubt our pledges across a wide range of negotiations. This is an untenable position for the United States.

Such congressional inactions seriously damage the moral, political, and economic leadership role of the United States. At the recent meeting of the IMF Interim Committee and IMF/IBRD Development Committee in Hamburg, criticism of U.S. delays concerning the multilateral development banks was a major topic. Many developed and developing countries expressed their acute concern, both formally during the meetings and informally in the corridors. Many countries drew attention to the fact that any cessation of multilateral-development-bank lending caused by U.S. inaction would adversely affect development prospects in a large number of countries at a time of greatly growing need.

Countries were also troubled that the current problems concerning the regional development banks might spill over into the whole range of multilateral-development-bank issues, including the IDA sixth replenishment and the IBRD General Capital Increase. These concerns were expressed explicitly in the recent development committee communique, where legislative difficulties were singled out as threatening a hiatus in the commitment authority of the banks.

U.S. failure to meet its pledges to the multilateral development banks is

rapidly becoming a major issue in U.S. relations with the developing world. The concerns expressed in Hamburg will almost certainly be echoed in other North-South fora unless we move quickly to repair the situation.

The IMF and the World Bank provide complementary sources of external capital. In the narrow sense, they have distinctly different functions and objectives. Yet both aim fundamentally at a strong global economy. The energy situation has brought to the surface the widespread need for structural adjustment in all oil-importing countries—developed and developing countries alike.

By cooperating closely, the Fund and World Bank can enable countries to undertake the needed medium-term structural adjustments, while simultaneously meeting the shorter term external financing needs. Fund policies aimed at eliminating internal and external imbalances can be reinforced with structural adjustment programs supported by the Bank. However, without strong and unwavering support from the United States for these two institutions, as well as the regional development banks, the international financial institutions will be unable to demonstrate the flexibility and strength necessary to meet the economic challenge before us.

### Conclusion

There has been considerable progress during the past few years in North-South relations. In the process of attaining this progress, we have sought to insure that the policies adopted will provide benefits for the United States as well as for the developing countries. Indeed, this is the only politically viable way in which such progress can be made.

The primary task before us now is to consolidate and make full use of those international economic instruments which have recently been put in place or improved, most of which I have discussed today. Once we have implemented the new agreements and given them a chance to work, we can determine what further steps need to be taken.

At home, this requires timely and faithful implementation—including by the Congress—of the various steps which have been worked out internationally. Abroad, it requires patience and perseverance in effectively utilizing the agreements of the late 1970s. By building on the progress made on specific issues in functionally specific fora over the past few years, we can hope to evolve a more stable and equitable world economy in the 1980s and beyond.

## GLOSSARY

**Brandt Commission**—Independent Commission on International Economic Issues headed by former West German Chancellor Willy Brandt. It was created in September 1977 at the suggestion of World Bank President Robert McNamara. It gathered information on and proposed solutions to North-South problems. The Commission issued its report on North-South relations in February 1980.

**Common Fund**—A fund to finance commodity buffer stocks as proposed in the 1976 Nairobi U.N. Conference on Trade and Development (UNCTAD) IV Integrated Program for Commodities.

**Compensatory Financing Facility**—International Monetary Fund (IMF) program established in 1963 to finance temporary export shortfalls, as in coffee, sugar, or other cyclically prone export item, for reasons beyond the member's control; member must cooperate with the Fund to find appropriate solutions (100% of quota; repayment in 3-5 years).

**Conference on International Economic Cooperation (CIEC)**—A conference of 8 industrial nations, 7 oil-producing nations, and 12 developing countries held in several sessions between December 1975 and June 1977. The conference was sometimes referred to as the North-South dialogue.

**Developed Countries**—Countries with relatively high per capita GNP, education, levels of industrial development and production, health and welfare, and agricultural productivity. International agencies differ in their classification of countries but, in general, the developed countries are considered to be the 24 members of the Organization for Economic Cooperation and Development (United States, Canada, Western Europe, Australia, New Zealand, and Japan) together with six centrally planned economy countries of Eastern Europe, including the U.S.S.R.

**Developing Countries**—The remaining countries of the world. They are largely poor and lack significant industry and efficient agriculture, although there is no uniform definition in terms of wealth or economic structure. The members of the Organization of Petroleum Exporting Countries, for example, are considered developing nations.

**General Agreement on Tariffs and Trade (GATT)**—A multilateral trade treaty negotiated and signed in 1947. The original 23 signatory nations had

been appointed by the U.N. Economic and Social Council to draft a charter for a proposed international trade organization. Since the charter was never ratified, GATT, intended to be an interim agreement, remains the only code of conduct for international trade accepted by the countries responsible for most of the world's trade. GATT has 83 members plus 23 developing countries participating under special arrangements.

**Generalized System of Preferences (GSP)**—A system approved by GATT in 1971, which authorizes developed countries to give preferential tariff treatment to developing countries. In 1976 the United States adopted the system.

**Global Negotiations**—The 34th U.N. General Assembly in the fall of 1979 adopted a resolution calling for a special session in August-September 1980 to decide on launching a new round of international economic negotiations. These negotiations—to include issues of raw materials, energy, trade, development, money and finance—have come to be called "global negotiations."

**Group of 77**—A majority of developing countries that has its origins in the "Caucus of 75" developing countries organized preparatory to UNCTAD I (U.N. Conference on Trade and Development) in Geneva in 1964. By the time UNCTAD I had completed its deliberations, the Group had expanded by two members and issued a "Joint Declaration of the 77 Developing Countries" appraising the work of the conference. This numerical designation for the Group has persisted, although in 1980 the membership is now 119.

The Group of 77 has continued to function as a caucus for the developing countries on economic matters in UNCTAD and many other fora of the U.N. system. Although regional differences, level of development, trade relationships, and resource endowment have continued to provide areas of potential and actual cleavage within the Group, it remains politically cohesive. The Group includes OPEC countries with per capita incomes higher than any developed country as well as the world's poorest nations.

**International Bank for Reconstruction and Development (IBRD or World Bank)**—Created as a sister organization to the International Monetary Fund as a result of the 1944 Bretton Woods Conference, the IBRD began its operations in 1946. Its purpose, after initially emphasizing the reconstruction of Europe after World

War II, has been both to lend funds at commercial rates and to provide technical assistance in order to facilitate economic development in its poorer member countries. The Bank works closely with other international organizations in preparing and identifying development projects in such areas as agriculture, education, electric power, transportation, and family planning.

The Bank's funds are derived from members' subscriptions, sales of its own securities and parts of its own loans, repayments, and net earnings. Membership in the International Monetary Fund is a prerequisite to membership in the IBRD.

**International Development Association (IDA)**—The IDA was established in 1959 as an affiliate of the World Bank group. It lends money to developing countries at no interest and for a long repayment period (soft loans), because many developing countries cannot afford development loans at ordinary rates of interest and in the time span of conventional loans. IDA's funds are furnished by regular "replenishments" from member countries and by loans from the IBRD.

**International Monetary Fund (IMF)**—An independent international organization created in 1945 as a result of the 1944 Bretton Woods Conference, the IMF's chief purpose is the maintenance of international monetary stability. Members of the IMF are assessed a membership quota to create the monetary fund; the standard rule is that 25% of the member's quota must be paid in gold and 75% in the member's own currency. The IMF's resources are used as a revolving fund that does not need to be replenished; whenever the Fund sells an amount in one currency to a member state, it obtains an equivalent amount in another currency.

**Nonaligned Movement**—A grouping of nations that have deliberately chosen not to be politically or militarily associated with either the West or the Communist bloc. Although this movement has its roots in a 1955 meeting of the leaders of 25 Asian and African countries at Bandung, Indonesia, it began formal meetings using the name "nonaligned countries" in Belgrade in 1961. At a Cairo meeting preparatory to the Belgrade conference, the countries adopted a definition of nonalignment which states that a nonaligned country must: "1) pursue an independent policy based on peaceful coexistence; 2) not participate in any multilateral military alliance . . . ; 3) support liberation and independence movements; and 4) not participate in bilateral military alliances with the Great Powers."

Six nonaligned summit meetings have been held—in Belgrade (1961), Cairo (1964), Lusaka (1970), Algiers (1973), Colombo (1976), and Cuba (1979). Interim leadership of the nonaligned countries rests with the country that last hosted a summit meeting.

**North-South Dialogue**—Refers to economic discussions between the North (the industrialized developed countries generally located in the Northern Hemisphere) and the South (the developing countries located mainly in the Southern Hemisphere). Although the term “North-South dialogue” is used as a synonym for the Conference on International Economic Cooperation, North-South issues are discussed at a number of international forums. The Soviet Union and its allies generally remain aloof from the North-South dialogue and only occasionally actively participate in North-South discussions. The Communist countries respond to the growing pressures to be more forthcoming toward LDC demands with the argument that LDC problems are the result of past colonialism and capitalism and, therefore, are the sole responsibility of the West.

**Official Development Assistance**—This is defined by the OECD's Development Assistance Committee as:

“Those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective and b) it is concessional in character and contains a grant element of at least 25 percent.”

Official development assistance may be in the form of soft loans, bilateral grants, or multilateral flows of various types.

#### **Organization for Economic Cooperation and Development**

**(OECD)**—The OECD was created in 1961 with 22 members—the industrialized market economies of North America, Europe, and the Far East. Its objectives are to promote economic growth among member nations, to contribute to the economic development of both member and nonmember nations, and to further world trade. A prominent organ of the OECD is the Development Assistance Committee, which coordinates and tabulates the official development assistance given by OECD members to developing countries.

#### **Supplementary Financing**

**Facility**—IMF facility for larger amounts and for longer periods in order to support economic programs under standby arrangements reaching into the upper credit tranches or under extended arrangements. Members are subject to relevant policies on conditionality, phasing, and performance criteria (102.5–140% of quota; repayment in 3.5–7 years).

**Third World**—Refers to those countries with underdeveloped but growing economies, often with colonial pasts and low per capita incomes. “Third World” is often used interchangeably with the terms “less developed countries,” “developing countries,” or “the South.” In the 1970s a “Fourth World” has been distinguished from the Third World to include those developing countries with little economic growth, few natural resources, lack of financial reserves, and with per capita incomes below \$200. Two main branches of Third World institutions are the nonaligned movement (which acts primarily as the political caucus of the Third World) and the

Group of 77 (which functions as the economic voice of the Third World).

**U.N. Development Decades**—A term used by the United Nations to refer to its 10-year plans for international development strategy in achieving eventual economic self-sufficiency in developing countries. The First Development Decade, proclaimed by U.S. President John F. Kennedy in an address to the U.N. General Assembly on September 25, 1961, set as its goal a minimum rate of growth in national income of 5% in developing countries by the end of the decade. Developed countries were asked to provide 1% of their national incomes as financial aid to developing countries.

The Second Development Decade, adopted at the 25th General Assembly in 1970, called for an annual growth rate of at least 6% in the GNP of developing countries, an annual growth rate of 3.5% in per capita income in these countries, and resource transfers of at least 1% (of which 0.7% should be official development assistance) of GNP from developed countries.

Negotiations are now underway for a development strategy for the Third Development Decade—the 1980s. ■

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